



## *Report to the Auburn City Council*

*Action Item**Agenda Item No.***6**

City Manager Approval

**To:** Mayor and City Council Members  
**From:** Bernie Schroeder, Director of Public Works  
**Date:** February 11, 2013  
**Subject:** Regional Sewer Project Update and Decisions

### *The Issue*

Shall the City provide the City of Lincoln and the Placer County Board of Supervisors (BOS), the City of Auburn's intent to participate with the Regional Sewer Project?

### *Conclusion and Recommendation*

Staff recommends the City Council to provide input on their interest in the Regional Sewer Project based on updated project costs and recent project developments. Staff has two main options for Council consideration:

Option 1- Continue to Pursue the Regional Sewer Project and direct staff to finalize a set of deal points to present to Placer County and/or Lincoln in which to move forward.

Option 2- Do not continue pursuing the Regional Sewer Project.

### *Background*

In January 2012 the Council had approved Resolution No.12-05 indicating a desire for the City to continue pursuing the Regional Project and conduct analysis including but not limited to details about County funding support to Auburn. In March 2012, the Council also approved Resolution NO. 12-17 thereby urging the Placer County Board of Supervisors (BOS) to commit sufficient Middlefork Project Funds to stabilize Auburn's sewer rates in the construction of capital costs associated the Regional Project. In September 2012, Resolution No. 12-103 was approved by the City Council thereby establishing an Ad Hoc Committee on the Regional Sewer Project and appointing Council Members Powers and Kirby to this Committee. This committee was tasked to participate in meetings and conversations with the Placer County Board of Supervisors and others and return to the full council with a set of recommendations in which to make a decision on the project.

### *Purpose of This Item:*

This item has been brought forth at the request of the AD HOC Committee Members Powers and Kirby to present the attached Exhibit A and provide a set of recommendations relating to the Regional Project. In addition, at the January 28, 2013 Council Meeting under Committee Reports, Councilman Kirby requested that City Staff provide an opportunity to meet individually with other

Council Members to discuss a recent financial and operational impact analysis of the Regional Project conducted by staff. Input was provided and Mayor Hanley directed this information to also be provided in this report under *Staff Findings*. Therefore, the action requested tonight is to consider the above options, be provided input from the Councilmembers of the Ad Hoc Committee and receive staff findings.

***Staff Findings:***

A series of meetings have been held with the Council Members, Staff and consultants from Auburn, Placer County and the City of Lincoln. Auburn Staff has conducted both financial and operational analysis of the Regional Sewer Project and concludes with the following set of findings:

- Staff finds minimal compelling reason to continue pursuit of the Regional Sewer Project if the impact to the sewer rate cannot be stabilized by outside funding.
- The once federally funded regional sewer project no longer exists –the costs would be solely on the rate payers of Auburn.
- The most recent estimated annual operations and maintenance costs from the City of Lincoln indicate an actual increase in costs to Auburn rather than savings by increasing the number of users (economy of scale does not exist).
- Meeting future discharge compliance at the Auburn Plant does not appear to have any greater challenges than those that would exist at the Lincoln Plant.
- The current operation and organizational structure at the Auburn Plant has maximized efficiency and maintains the ability for the City Council to directly decide compliance strategy for Auburn rate payers.
- The Regional Sewer Project is lacking firm definition.
- Without significant outside funding the capital costs associated with this project would increase the anticipate sewer rate approximately 25%.

***Current Status of Project***

As Council is aware, in the Spring of 2012 the Placer County BOS voted to have the City of Lincoln design, construct, and operate a pump station, pipeline, and expand the Lincoln treatment and disposal facilities for the North Auburn Sewer Maintenance District # 1 Wastewater Treatment Plant (SMD#1). This project is currently being designed. The Project's Draft Environmental Impact Report (EIR) (prepared by the City of Lincoln) started the 45 day public comment period last week. The EIR is scheduled to be certified in June 2013. Design documents are scheduled to be publically bid during the summer of 2013. The 2-year construction project for connecting the County to Lincoln could be awarded to contractor(s) as soon as September 2013. The schedule is driven by the County's requirement to be in full compliance with its discharge requirements by Sept 1, 2015.

Because of the potential cost savings to the County for having Auburn join into a regional system, Placer County has also agreed to front additional costs for Auburn to be included in the EIR, permitting, and the design of the 4 mile stretch of common pipeline. The pipeline design will require the bidders to submit pricing on a pipe size with Auburn included and one without Auburn included.

The environmental documentation and pipeline design work are nearing completion and Auburn is being requested to provide the City of Lincoln and the BOS direction on its intent on connecting into the regional sewer.

Staff recognizes that a primary factor in Council's continued interest in participating in the Regional Sewer is it's the affordability (sewer rate and fee impact) of the project on its customers. Staff has provided more detailed information on the potential rate impact under the Fiscal Impact section of this staff report. Overall, the City will need to finance up to an estimated \$36.3 million of capital costs to build the required pump station, pipelines, and buy-in to an expanded Lincoln wastewater treatment plant. The \$36.3 million upfront cost could be reduced by applying some of the City's sewer fund reserves as well as any funding the County might be willing to apply. These cost scenarios will be discussed during the staff presentation.

**Option 1 - Pursue the Regional Sewer Project:** Specifically, direct staff to finalize the Deal Points as drafted/amended in Exhibit A, develop necessary agreements with Placer County and Lincoln to commit to the Regional Sewer Project so Auburn would be pumping its wastewater within the next 6 years to Lincoln. Staff recognizes that commitment to regionalization would be conditioned on mutually acceptable agreements for the financing, design, construction, operations and governance of regional facilities, as well as receipt of favorable construction bids.

***Implications of Option 1:***

The City would need to incrementally raise its sewer rates to fund up to 36.3 million in capital costs in the coming years. The City would need to start the Proposition 218 process to alert its customers of the proposed increase as soon as practical.

With this Option 1 the City would need to endorse the City of Lincoln's EIR in the coming months. In addition, an authorized representative of the City would also need to sign a Water Rights Petition to the State Water Resources Control Board for the removal of the treated effluent from Auburn Ravine.

**Option 2 - Do not Pursue the Regional Sewer Project.** If the Council decides it is not in the City's best interest to continue to participate in this project then the City's efforts would instead focus on re-investing in its own treatment facilities and long term compliance with future NPDES permits.

**Fiscal Analysis – Estimated Impact on Current Rates**

Consideration by the City of Auburn of whether or not to move forward with the regionalization concept should be considered within the context of the financial impacts to sewer rate payers and the existing fiscal efficiency of the City's Sewer Enterprise Fund as noted below.

**Regionalization Financing Assumptions**

The City of Auburn recently received information estimating the total capital cost of Auburn's share of the regionalization effort at \$36.3 million. The same information indicates the annual ongoing operation and maintenance costs charged to the City would be \$1,565,000 (in 2013 dollars).

As a means to fund the initial capital costs of \$36.3 million, staff has analyzed the impact of several debt / subsidy alternatives given the following assumptions:

- Sewer Fund "regionalization" reserves and unspent bond proceeds of \$3,273,000 will be used to offset the capital cost (total amount financed would be \$33,027,000);
- State Revolving Fund (SRF) funding will be available at an interest rate of 1.7% to be paid back over a 30-year period;
- Debt service for existing SRF loans and bonds is deemed available for future compliance needs as a means to maintain stable rates; and
- Remaining reserves in the City's Sewer Fund will be sufficient to fund required debt service reserves; and collection system capital reserves will never fall below \$4 million.

#### Incremental Rate Requirement - Regionalization

Given the above assumptions, monthly sewer rates per Equivalent Dwelling Unit (EDU) would be impacted according to the table below:

	-----Funding "Subsidy"-----		
	No Subsidy	\$7 million	\$18.16 million
<b>Amount Financed</b>	\$33,026,989	\$26,026,989	\$14,862,145
<b>Annual Debt Service Requirement</b>	\$1,414,521	\$1,114,717	\$636,535
<b>Additional Rate Required (per EDU/month)</b>	\$15.00	\$10.00	<i>stable</i>

Estimated Annual Sewer Fee for:

<i>Typical Single Family Dwelling (1 EDU)</i>	\$906.00	\$846.00	\$726.00
<i>Single Family Dwelling w/Two Lift Stations</i>	\$1,295.64	\$1,209.84	\$1,038.24
<i>Apartment Complex &amp; Skilled Nursing Facility</i>	\$99,024.48	\$92,467.08	\$79,352.28
<i>80 Unit Apartment Complex</i>	\$51,465.60	\$48,057.60	\$41,241.60
<i>Old Town Restaurant</i>	\$4,481.08	\$4,184.32	\$3,590.80
<i>Downtown Restaurant</i>	\$4,688.01	\$4,377.54	\$3,756.61
<i>Brewery/Restaurant</i>	\$10,395.90	\$9,707.43	\$8,330.49

In addition to the above referenced potential rate increases, participation in the regionalization effort would likely result in an increase to the sewer connection fee. Consistent with connection fees estimates received from the City of Lincoln when the original offer was made, Sewer connection fees are projected to rise from the current \$7,408.20 per sewer unit to \$12,700.00 per sewer unit.

#### Existing Efficiencies of Sewer Enterprise

The City's Wastewater Treatment Facility and Collection System operations are currently both fiscally and operationally efficient, and will likely not require incremental rate increases above the CPI amount in the coming years.

- Contract operations costs are currently managed to a point where decreases have been experienced over the last two years, and are now less than the \$1,565,000 operations and maintenance costs estimated in recently received regionalization costs.
- Current reserve levels are able to fund cyclical maintenance and capital costs.
- Forward-thinking future compliance needs (i.e. oxidation ditch) can be funded using reserves and rolling debt service (maturing debt service put back into capital).
- Notification from Standard & Poor's that Sewer Revenue Bonds have been recently upgraded from AA- to AA as a result of "very strong financial position".

**Alternatives Available to Council:**

1. Continue pursuing the Regional Sewer Project by directing staff to finalize the Deal Points as presented or amended in Exhibit A, and present them to the Board of Supervisors and/or the City of Lincoln.
2. Continue interest in the Regional Sewer Project by developing an agreement with Placer County to share in the costs of the common pipeline. With this alternative staff would need to formalize estimated costs and rate impact.
3. Direct Staff to discontinue the pursuit of the Regional Project.

**Attachments:**

Resolution No. 12-05, Dated January 12, 2012

Resolution No. 12-17, Dated March 12, 2012

Resolution No. 12-103, Dated September 24, 2012

Exhibit A – Regional Sewer Draft Deal Points to Consider

RESOLUTION NO. 12-05

REGIONALIZED WASTEWATER TREATMENT PLAN

THE CITY COUNCIL OF THE CITY OF AUBURN DOES HEREBY RESOLVE:

**WHEREAS**, residents of western Placer County (County), are served by seven separate wastewater treatment agencies that provide wastewater treatment services to approximately 200,000 residents; and

**WHEREAS**, in 1994 the County updated its General Plan. It's here that county policy to regionalize wastewater treatment began to take shape; and

**WHEREAS**, in 1998 the County recognized the need to sharpen its focus and commissioned a study to evaluate available options to meet the County's increased wastewater treatment needs; and

**WHEREAS**, this study recommended that the County pursue a regionalized wastewater treatment plan to include: construction of two new regional wastewater treatment plants, upgrade of an existing wastewater treatment facility, and closure of six small, inefficient facilities; and

**WHEREAS**, in 2000 the Placer Nevada Wastewater Authority (PNWA) was formed to help advance such projects. As one of its founding members, the City of Auburn remains a member agency; and

**WHEREAS**, the PNWA has proven to be successful with efforts contributing to the successful construction of a regional wastewater treatment and reclamation facility, the decommissioning of two inefficient facilities, installation of the Bickford Ranch regional pipeline and securing \$10 million in grants; and

**WHEREAS**, after years of hard work, leadership and a shared vision, nearly forty percent of the regional pipeline to the City of Auburn has been constructed and is in the ground awaiting completion; and

**WHEREAS**, the regional project under consideration would construct the remaining portions of this pipeline from Lincoln to Auburn. It would transfer wastewater from Sewer Maintenance District 1 (SMD1) in North Auburn to the regional facility in Lincoln, and;

1       **WHEREAS**, completion of a regional project would allow the County to  
2 achieve and better comply with increasingly stringent water quality standards  
3 and treatment/disposal criteria; and

4       Given all taxpayers in California face increasing regulation and the  
5 resulting cost, a regional approach may also benefit the City of Auburn; and

6       **WHEREAS**, such consistent increase in sewer rates reveal the high cost  
7 of regulatory compliance, this trend is expected to continue with future cost  
8 increases best positioned to be offset with a regional solution; and

9       **WHEREAS**, City of Auburn expects to be granted the capital cost of the  
10 project; and

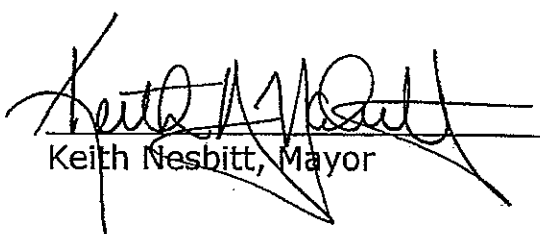
11       **WHEREAS**, participation of the City of Auburn is a key element in  
12 consideration of the regional solution effecting overall costs and the policy and  
13 organizational framework upon which will be used as the project advances; and

14       **WHEREAS**, the City reserves the right to review and accept any  
15 proposed governance. At the December 6, 2011 meeting of the Placer County  
16 Board of Supervisors, the board adopted Alternative A and directed staff to  
17 proceed with a regional solution for SMD1 compliance and return to the Board  
18 no later than March 13, 2012 with recommendations for a final Board decision.  
19 The upgrade and expansion of SMD1 remain a fall back option until March 19  
20 2012 in the event a regional solution is not possible. Staff was also directed to  
21 collaborate with staff of the City of Auburn, City of Lincoln, including SPMUD.  
22 Direction included evaluation of the public/private partnerships with the  
23 regionalization option.

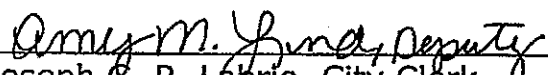
24       **NOW, THEREFORE, BE IT RESOLVED**, that the Auburn City Council  
25 recognizes this unique opportunity and desires to participate with the County  
26 and the City of Lincoln to further evaluate this regional solution. As a result,  
27 direct staff to participate in all relevant discussions and conduct analysis  
28 including but not limited to details about County funding support for the City  
per the direction of the Board of Supervisors on December 6, 2011. The  
Council will return in early March 2012 to consider participation in this regional  
solution.

DATED: January 23, 2012

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

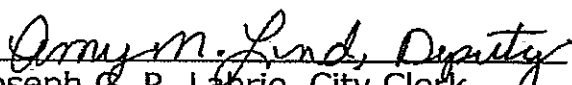
  
Keith Nesbitt, Mayor

ATTEST:

  
Joseph G. R. Labrie, City Clerk

I, Joseph G. R. Labrie, City Clerk of the City of Auburn, hereby certify that the foregoing resolution was duly passed at a regular meeting of the City Council of the City of Auburn held on the 23<sup>rd</sup> day of January 2012 by the following vote on roll call:

Ayes: Kirby, Hanley, Holmes, Powers, Nesbitt  
Noes:  
Absent:

  
Joseph G. R. Labrie, City Clerk



1 RESOLUTION NO. 12-17

2 REGIONALIZED WASTEWATER TREATMENT PROJECT

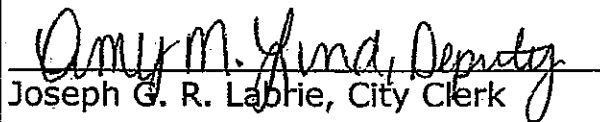
3  
4 THE CITY COUNCIL OF THE CITY OF AUBURN DOES HEREBY RESOLVE:

5 The Auburn City Council hereby urges The Board of Supervisors to commit  
6 sufficient Middlefork Project Funds to stabilize Auburn sewer rates and to  
7 address any unforeseen cost increases in capitol construction of the regional  
8 pipeline including the potential full operation of the Auburn Wastewater  
9 Treatment Plant.

10  
11 DATED: March 12, 2012

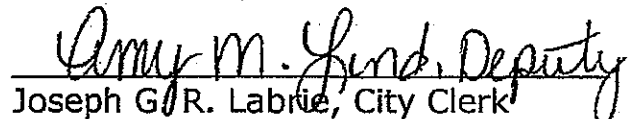
12  
13  
14  
15  
16  
17   
Keith Nesbitt, Mayor

18 ATTEST:

19   
Joseph G. R. Labrie, City Clerk

20  
21 I, Joseph G. R. Labrie, City Clerk of the City of Auburn, hereby certify  
22 that the foregoing resolution was duly passed at a regular meeting of the Cit  
Council of the City of Auburn held on the 12<sup>th</sup> day of March 2012 by the  
23 following vote on roll call:

24 Ayes: Kirby, Hanley, Holmes, Powers, Nesbitt  
25 Noes:  
26 Absent:

27   
Joseph G. R. Labrie, City Clerk

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

WHEREAS, the City has engaged in discussions with the City of Lincoln and the County of Placer about a regional sewer proposal to deliver wastewater from the City and nearby unincorporated areas to Lincoln for treatment at that City wastewater treatment plant;

WHEREAS, the City has previously expressed interest in participating in the regional effort provided the cost to its sewer rate-payers is reasonable; and,

WHEREAS, it will be constructive to form an ad hoc advisory group to consider the proposal and to make recommendations for the Council's consideration.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF AUBURN DOES  
HEREBY RESOLVE AS FOLLOWS:


SECTION 1. An ad hoc, advisory Regional Sewer Committee is hereby established to be comprised of City Councilmembers Kirby and Powers.

SECTION 2. The Committee is charged with developing a recommendation to the City Council regarding the regional sewer project. The Committee shall have such support from the City Attorney and other City staff as the City Manager shall direct.

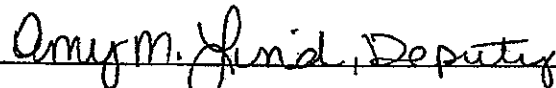
SECTION 3. The Committee shall provide a recommendation to the City Council on or before December 1, 2012. Upon provision of its recommendation to the City Council, the Committee shall automatically be disestablished.

1  
2 SECTION 4. The City Council directs that the Committee shall comply with th  
3 Brown Act notwithstanding the exemption for ad hoc advisory committees  
4 provided by Government Code § 54952(b).  
5

6 DATED: September 24, 2012  
7

8   
9 \_\_\_\_\_  
Kevin Hanley, Mayor

10  
11 ATTEST:  
12

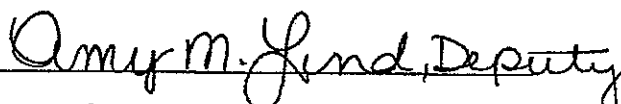
13  
14   
15 \_\_\_\_\_  
Joseph G. R. Labrie, City Clerk

16  
17 I, Joseph G. R. Labrie, City Clerk of the City of Auburn, hereby certify that th  
18 foregoing resolution was duly adopted by the City Council of the City of Aubu  
19 at a regular meeting held on the 24<sup>th</sup> day of September 2012 by the following  
20 vote:  
21

22 AYES: Holmes, Powers, Hanley

23 NOES:

24 ABSENT: Nesbitt, Kirby  
25

26  
27   
28 \_\_\_\_\_  
Joseph G. R. Labrie, City Clerk

## **EXHIBIT A**

### **REGIONAL SEWER DRAFT DEAL POINTS TO CONSIDER**

#### **Agreements**

Following the general process or model that Placer County has initiated in constructing the Western Regional Sewer Project there could be a series of agreements between the jurisdictions. The first, a Design and Environmental Review Agreement (DERA) followed by a Construction and Initial Operations Agreement (CIOA).

For Auburn, staff is proposing City Council consider these general provisions to be included in a model type agreement such as a DERA:

1. Auburn's buy in for the common section of pipeline only is estimated at 2.8 million. This would be in the form of an agreement with Placer County. Referenced from the Lincoln/County DERA.
2. Lincoln would be responsible for environmental work for everything related to the Lincoln Plant, Auburn Plant and the regional pipelines.
3. Auburn would be presented an option to participate in the common pipeline prior to the award of the County related regional project (estimated to be in Sept 2013). This would be an understanding under an agreement with Placer County.
4. The City of Auburn would reimburse the City of Lincoln as the work is completed not upfront.
5. Indemnification: Neither the County nor Lincoln is indemnifying the other party in their approved DERA so Auburn staff would support a similar arrangement pending input from the City Attorney and Risk Management.
6. Initiate the Environmental Impact Report for the Auburn facilities following the bidding of the County project which includes the common pipeline to benefit by actual bid numbers.
7. The City of Auburn and Lincoln would work cooperatively together to complete the design and environmental review process however there would be no hard line deadlines not mutually agreed upon prior to the full execution of the DERA.
8. In the event after the completion of the environmental process Lincoln or Auburn chooses not to move forward with the project, the City of Auburn will receive ownership of the design documents and may elect to move forward at a later date or by another means or not at all.
9. Any costs or changes in scope associated with the DERA would be approved by the Auburn City Council.

Other issues that would be decided upon under the DERA would likely include Terms and Termination, Rights of Way and Property Acquisitions, Financing, Water Rights, Additional Agreements, Dispute Resolution and other specific to legal matters between the parties.

For the model type CIOA, staff is suggesting the following provisions be considered:

1. The CIOA would be utilized as a mechanism for the construction and management of the regional pipeline including treatment at the Lincoln plant and would establish the framework for the future governance.
2. The budget for this project is understood currently to be at \$36.3 million but would be adjusted based on actual construction bids, adjustment for proposed Auburn retention of plant and Auburn only pipe and with agreement from Lincoln City Council.

3. Lincoln operates its plant and regional pipelines; Auburn owns, operates its ponds, pump station and pipelines.
4. For the treatment of effluent Auburn pays operations and maintenance costs equal to that of the Lincoln and Placer County rate payers. For maintenance of the regional facilities and Lincoln oversizing costs this would be established and agreed to in the CIOA.
5. Lincoln would be responsible for any regulatory fines associated with the regional facilities Auburn for the Auburn portion.
6. The City of Auburn (as with Placer County) would be responsible for any regional portion construction cost overruns that exceed the oversizing payment.
7. The City would establish a fiscal disbursement agreement to make payments for work completed under the CIOA.
8. The CIOA would establish the connection fee for the regional Project and this fee along with the M & O fee component of the rate would be the same for all users.
9. The costs to buy into the Lincoln Plant will be firm for existing users and the City of Auburn will be provided an option to purchase an additional of treatment capacity once the Regional Project is constructed at the then current Lincoln connection fee.
10. The CIOA would include provisions for governance during the first 5 years of operations as well as a framework for long term governance and dispute resolution.
11. Execution of the DERA would not contractually bind either party to execution of the CIOA.
12. Lincoln is responsible for managing construction of its WWTP and regional pipelines (Auburn would reimburse Lincoln).
13. Auburn would manage construction of its plant site and pipeline since they would be separate projects and owned and operated by the city.
14. Start construction after environmental (EIR Addendum for Auburn) is certified and the County near completion.

## **Governance**

The issue of governance is not yet fully developed but a joint powers approach for the Regional project is typically a good model which provides the greatest potential for equity and fair representation.

Specific deal points to consider are as follows:

1. All parties share equally in the future cost of compliance at the Lincoln WWTP.
2. Provisions in the agreement would protect Auburn rate payers from being burdened with compliance costs that are specifically a result of either one of the other parties and not Auburn.
3. Each agency to manage the design and construction of the facilities they will ultimately own.
4. Auburn to enter into an agreement with Placer County and Lincoln for the annual maintenance of the Regional pipe line and Lincoln WWTP for treatment operations.

(Page intentionally blank)